MEG Energy Corp. (TSX:MEG)

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AGENDA

INVESTMENT SUMMARY

Action	Target Price	Implied Upside
Buy	**$32.50**	**~21%**

Key Drivers

Market Access

MEG has committed capacity on TMX pipeline increasing access to markets in Asia and American West Coast.

Strengthened Balance Sheet

Committed 100% of Free Cash Flow to be returned to Shareholders as remaining outstanding notes mature in 2029.

Developments to Improve Production

Investing in technology to improve efficiency of SAGD operations.

MARKET OVERVIEW

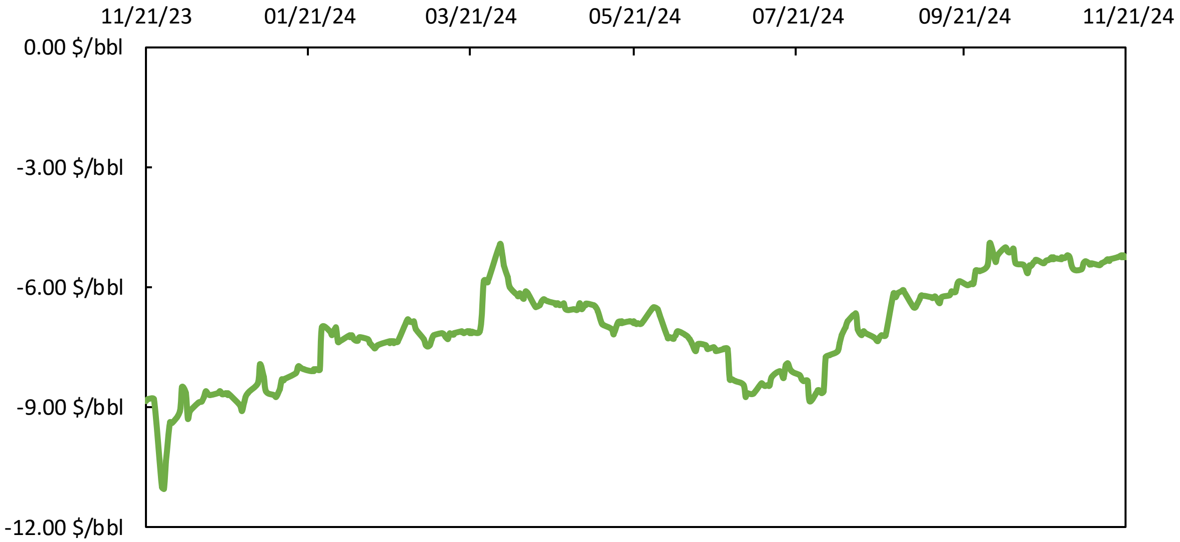
Market Considerations

- Possible reimplementation of sanctions on foreign markets can create global oil market volatility.
- Favorable conditions for U.S. energy exports may increase competition in global markets, impacting Canadian producers' market share and pricing.
- Higher U.S. oil production could increase global supply, potentially driving down prices if demand does not keep pace despite OPEC+ production cuts.
- Currently supply is outpacing demand by 2.5 mb/d, with a move towards equilibrium largely depending on Chinese demand outlook.
- There are currently lower levels of heavy crude inventory in North America.

Major Pipeline Tolls (USD/Barrel)

TMX	**$9.65**
Enbridge Pipeline	**$9.45**
TransCanada Keystone	**$8.65**

Historical Differential WCS-WTI



Differential Impact

- Current TMX crude has an estimated delivery split of 50/50 between China and California.
- The TMX coming online will relieve egress constraints resulting in a more stable price differential compared to past volatility.
- TMX tolls turned out higher than anticipated, contributing to a wider price spread than initially predicted.
- Increased global market access, especially to premium-paying markets in Asia, through West Coast exports.

Source(s): FactSet, OPEC, EIA

BUSINESS OVERVIEW

Business Description

About: Founded in 1999, MEG Energy Corp. (TSX:MEG) is a Canadian upstream oil company focused on sustainable thermal in situ production in the Athabasca region of Alberta. MEG transports and sells "Access Western Blend" throughout North America and international markets via their committed capacity on multiple pipelines. MEG heavily invests in their operational efficiency, prioritizing the development of technologies which assist in the recycling of materials, in turn, reduces their environmental impact.

Key Metrics

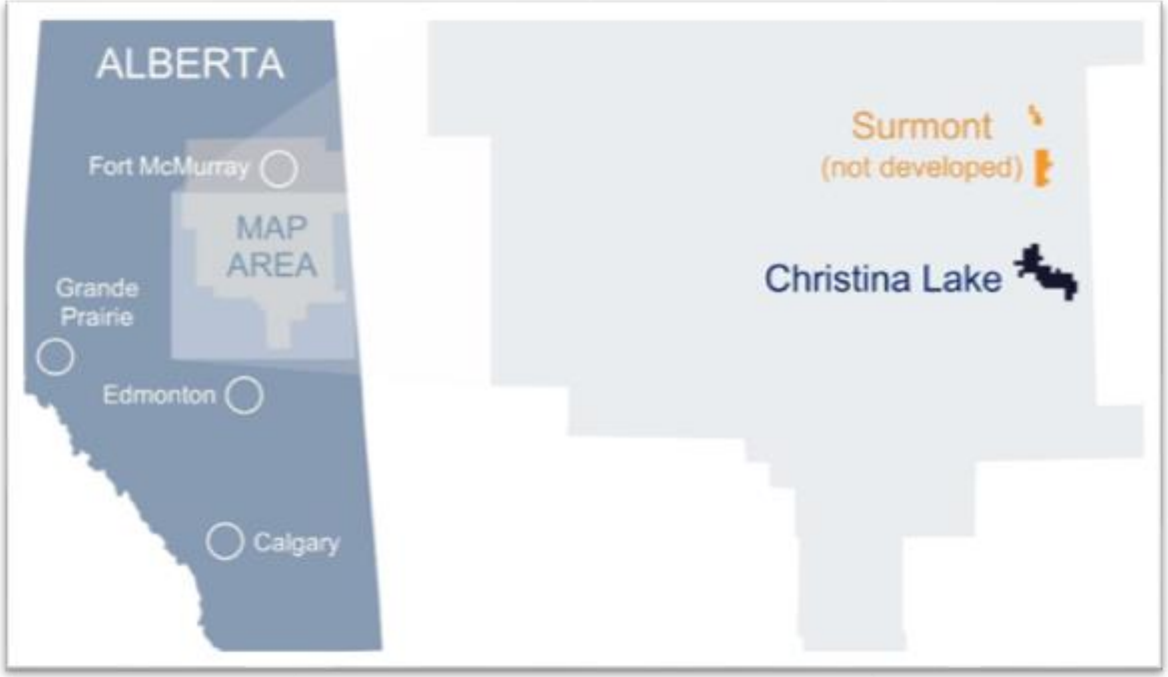
Market Cap	**$6,720.1 MM**
Enterprise Value	**$7,593.1 MM**
Net Debt (Q3 2024)	**$646.0 MM**
LTM EV/DACF	**5.4x**
Beta 5Y	**2.87**

Operating Areas

Christina Lake Project: MEG owns 80 square miles of mineral leases in southern Athabasca. Since 2008, MEG has completed multiple phase developments and operations upgrades to have the oil processing capacity of 110,000 bbls/d. MEG has received regulatory approval to upgrade the central plant facility to the capacity of 210,000 bbls/d of production.

Christina Lake Overview	
Proved Reserves	1,176 MMbbls
Probable Reserves	755 MMbbls
After Tax PDP Reserve NPV	$16,665 MM (10% Discount Rate)
Estimated Reserve Life	~ 50 Years

Surmont Project: MEG owns 100% working interest in 32 square miles of land in southern Athabasca region. Upon development, the Surmont Project is expected to have a capacity of 120,000 bbls/d.



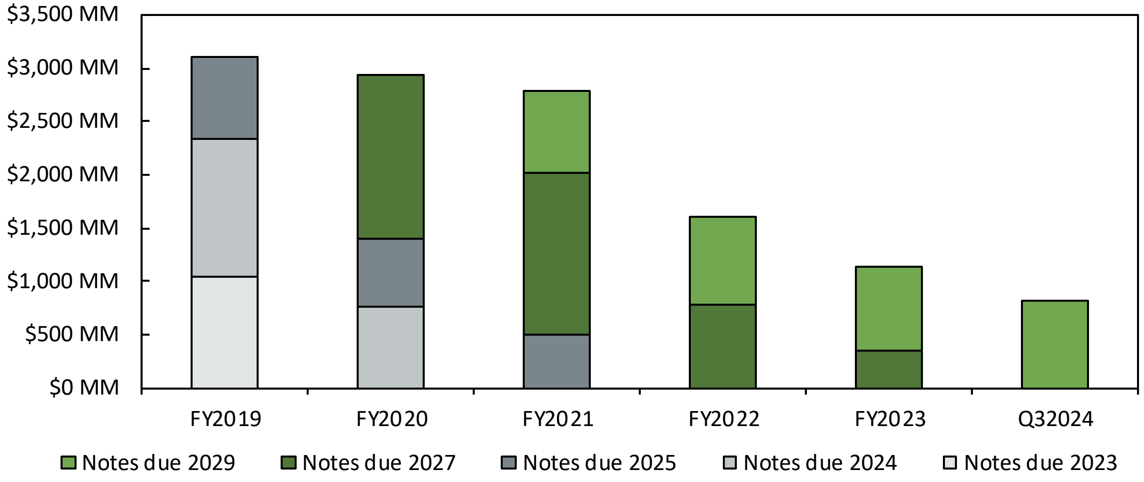
COMPETITIVE ADVANTAGE

Business Model

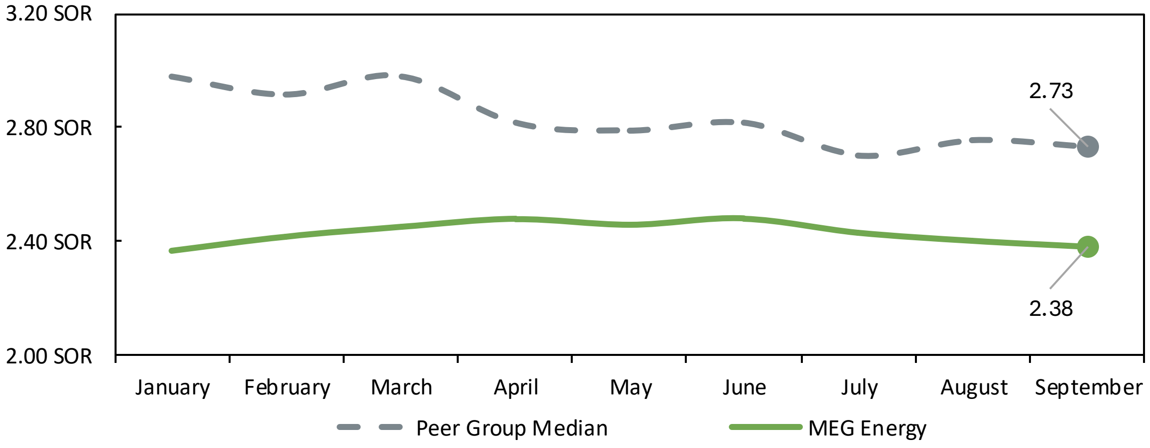
- Committed 100% of FCF to shareholders in Q32024.
- Reducing operational costs through EMSAGP technology, improving steam efficiency and lowering Steam-To-Oil Ratio (SOR).
- Offsets operating costs by selling excess power, generated by Cogeneration technology, to Alberta electricity grid.
- 120,000 bbls/d in committed pipeline capacity on West Coast TMX and USGC Flanagan South/Seaway Transport providing access to international markets.

Market Access

Notes Due



2024 Steam-to-Oil Ratio vs Peers



ENVIRONMENTAL OVERVIEW

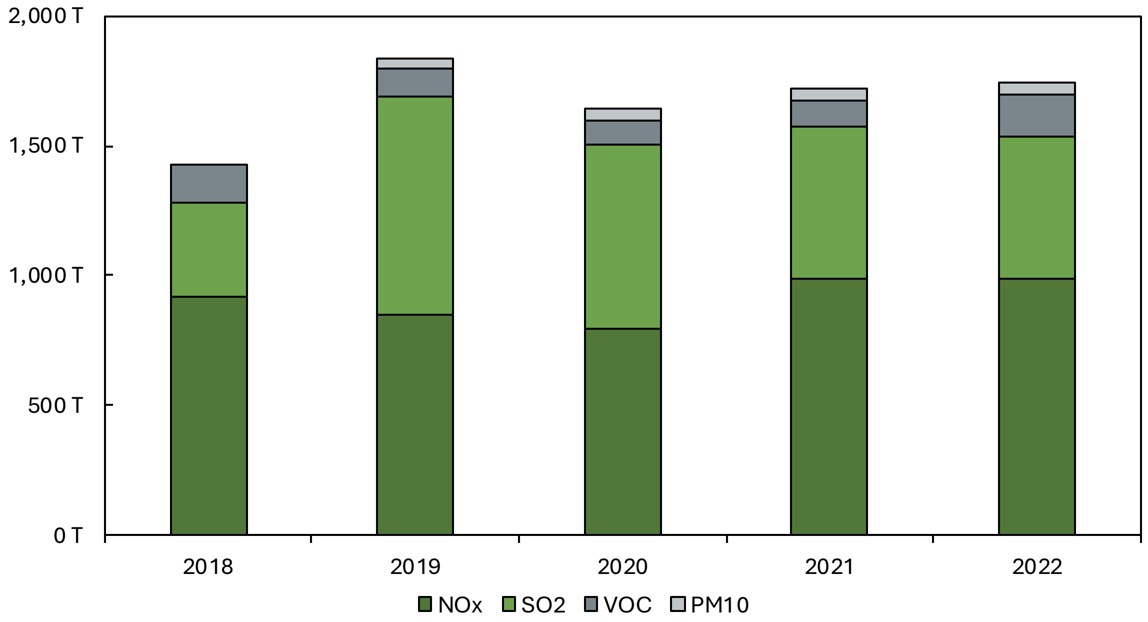
Environmentally Focused Operations

- Third generation production pads design reduce surface level disturbance by 40%
- 97% of water used in steam generation is recycled.
- Focused on reaching net zero emissions targets by 2050.
- Green House Gas emissions intensity remains 15% below In Situ industry average.

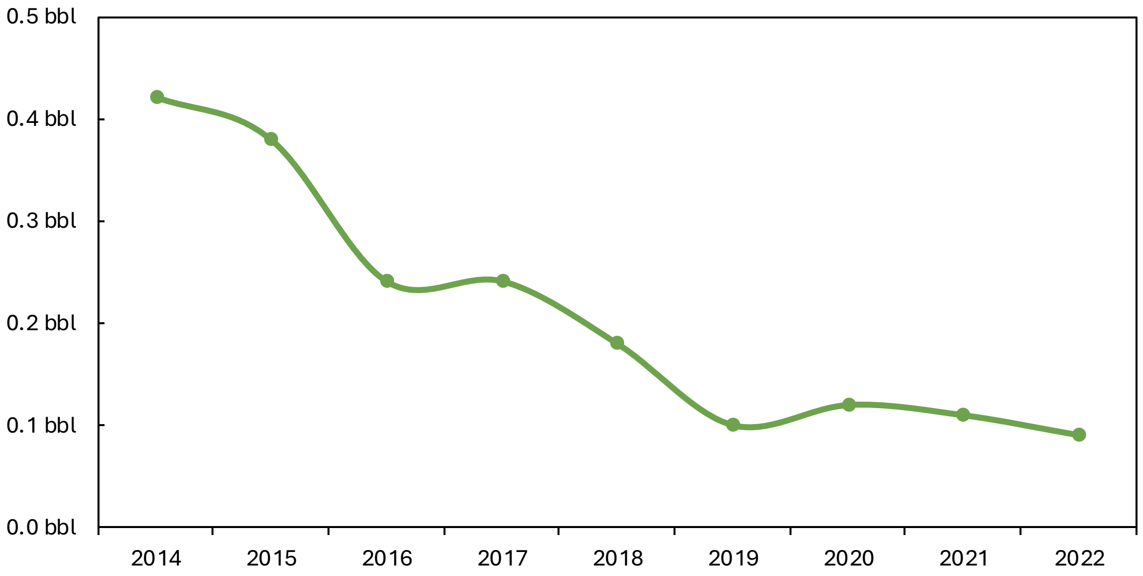
Pathways Alliance Progress

- **2021**: Founding Member, Carbon Capture Storage (CCS) Technology Evaluation
- **2022**: One of 19 carbon capture and storage (CCS) proposals chosen to proceed to the next stage of evaluation by the Alberta government
- **2023**: Completed pre-engineering work on the 400-kilometre pipeline
- **2023**: Conducting engineering studies for the phase 1 CO_2 capture facilities

Pollutant Emission Trends (Tonnes)



Make-Up Water Withdrawal per Barrel of Bitumen



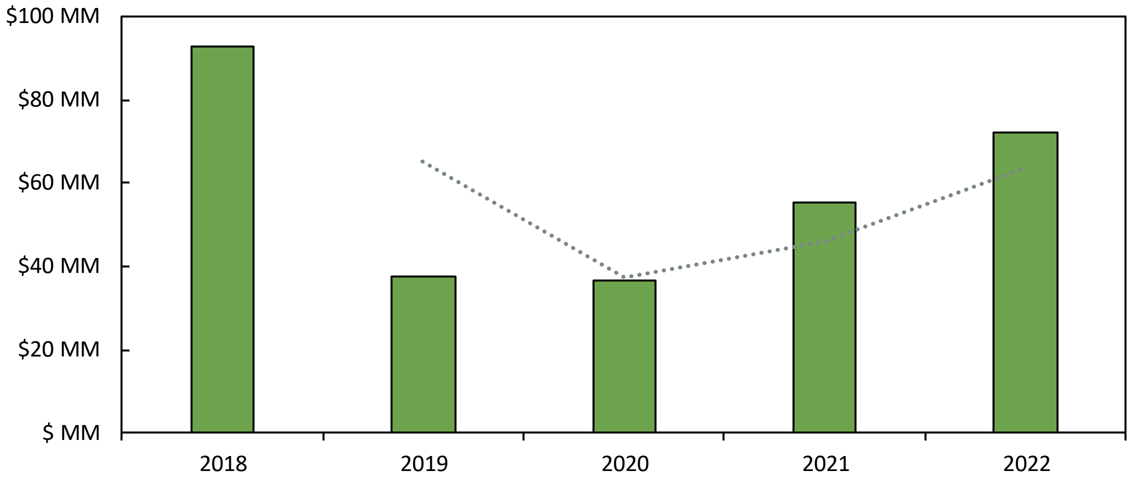
Source(s): Company Filings

SOCIAL AND GOVERNANCE OVERVIEW

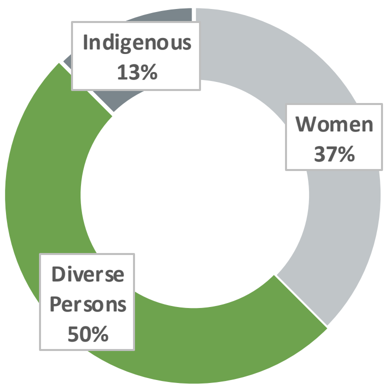
Board of Directors

Name	Audit	HR & Comp	Gov.	Reserve
Robert Hodgins	✓			
Susan MacKenzie	✓			✓
Kim Lynch Proctor	✓	✓		
Robert Rooney	✓			
Jeffrey McCaig		✓	✓	✓
Gary Bosgoed			✓	✓
Michael McAllister		✓	✓	✓
Diana McQueen		✓	✓	
Darlene Gates (CEO)				

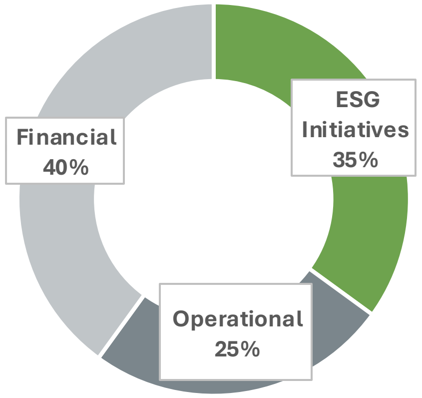
Investments in Indigenous Businesses



Board Diversity Targets Met (2022)



Corporate Performance Scorecard



Source(s): Company Filings

COMPARABLE COMPANY ANALYSIS

Comparable Company Rationale

- The comparable companies chosen are all Canadian, crude oil producers with assets in the **Athabasca Oil region**, they all also utilise **SAGD** (Steam-Assisted Gravity Drainage) for oil recovery.
- Over the LTM MEG Energy traded at a discounted EV/DACF (**5.1x**) compared to peers (**5.5x**), despite increasingly low financial leverage, and high growth potential from advancements in SAGD technology. The NTM multiple represents a premium of (**5.5x**) to peers (**5.3x**) which we believe is justified given it's recent FCF mandate, and the aforementioned upside in efficiency.

Relative Analysis

($ in millions, except per share data or as otherwise indicated)

	Market Data[1]					Financial & Operational Data								Multiples			
Company Name	Ticker Symbol	Price	Shares Outstanding	Market Cap	Enterprise Value	EBITDA		Cash Flow from Operations		Interest Expense		DACF		EV/EBITDA		EV/DACF	
						LTM	NTM	LTM	NTM	LTM	NTM	LTM	NTM	LTM	NTM	LTM	NTM
Athabasca Oil Corp.	ATH	$ 5.47	528	2,889	2,870	503	625	502	536	(33)	(19)	495	532	5.7x	4.6x	5.8x	5.4x
Cenovus Energy	CVE	$ 22.64	1827	41,353	48,722	9,593	10,307	10,152	9,614	(427)	(515)	10,054	9,496	5.1x	4.7x	4.8x	5.1x
Canadian Natural Resources Ltd.	CNQ	$ 48.30	2110	101,933	112,729	16,231	18,112	14,769	13,213	(654)	(890)	14,619	13,008	6.9x	6.2x	7.7x	8.7x
Greenfire Resource	GFR	$ 10.27	70	513	721	197	350	110	258	(63)	(30)	95	251	3.7x	2.1x	7.6x	2.9x
Strathcona Resources Ltd.	SCR	$ 32.32	214	6,924	9,737	2,173	2,258	2,020	2,256	(243)	(169)	1,964	2,217	4.5x	4.3x	5.0x	4.4x
Suncor Energy Inc.	SU	$ 57.50	1257	72,284	84,316	16,923	14,311	15,195	12,958	(689)	(893)	15,037	12,753	5.0x	5.9x	5.6x	6.6x
Median														**5.0x**	**4.7x**	**5.5x**	**5.3x**
Average														5.1x	4.6x	6.1x	5.5x
MEG Energy Corp.	**MEG**	**$ 26.77**	**263**	**7,049**	**7,922**	**1,473**	**1,374**	**1,565**	**1,456**	**(94)**	**(85)**	**1,544**	**1,437**	**5.4x**	**5.8x**	**5.1x**	**5.5x**

Source(s): Capital IQ, Company Filings (1) Price as of November 21, 2024

VALUATION & STREET TARGETS

Overview

- Acreage value was determined using the average of each month's Alberta oil sands direct purchase applications from 2024.
- Decline and production rates were determined using management guidance.
- Commodity forecast pricing determined using industry forecasts from EIA, OPEC, and IEA.

Street Targets

Broker	Rating	Target Price
BMO	Buy	$34.00
CIBC	Hold	$32.00
RBC	Buy	$34.00
ATB	Buy	$37.00

Key Assumptions

NAV
Discount Rate 10% | Decline Rate 10%

EV/DACF Model
Target Multiple: 5.5x | LTM DACF was used

NAV Model

$MM	Bear Case	Base Case	Bull Case
NPV of Reserves	7,495	9,436	10,794
Acreage	*45*	*45*	*45*
Total Assets	**7,540**	**9,481**	**10,839**
(-) Net Debt	(646)	(646)	(646)
Net Asset Value	**6,894**	**8,835**	**10,193**
Shares Outstanding (MM)	*263*	*263*	*263*
NAV/Share	**$26.21**	**$33.59**	**$38.76**

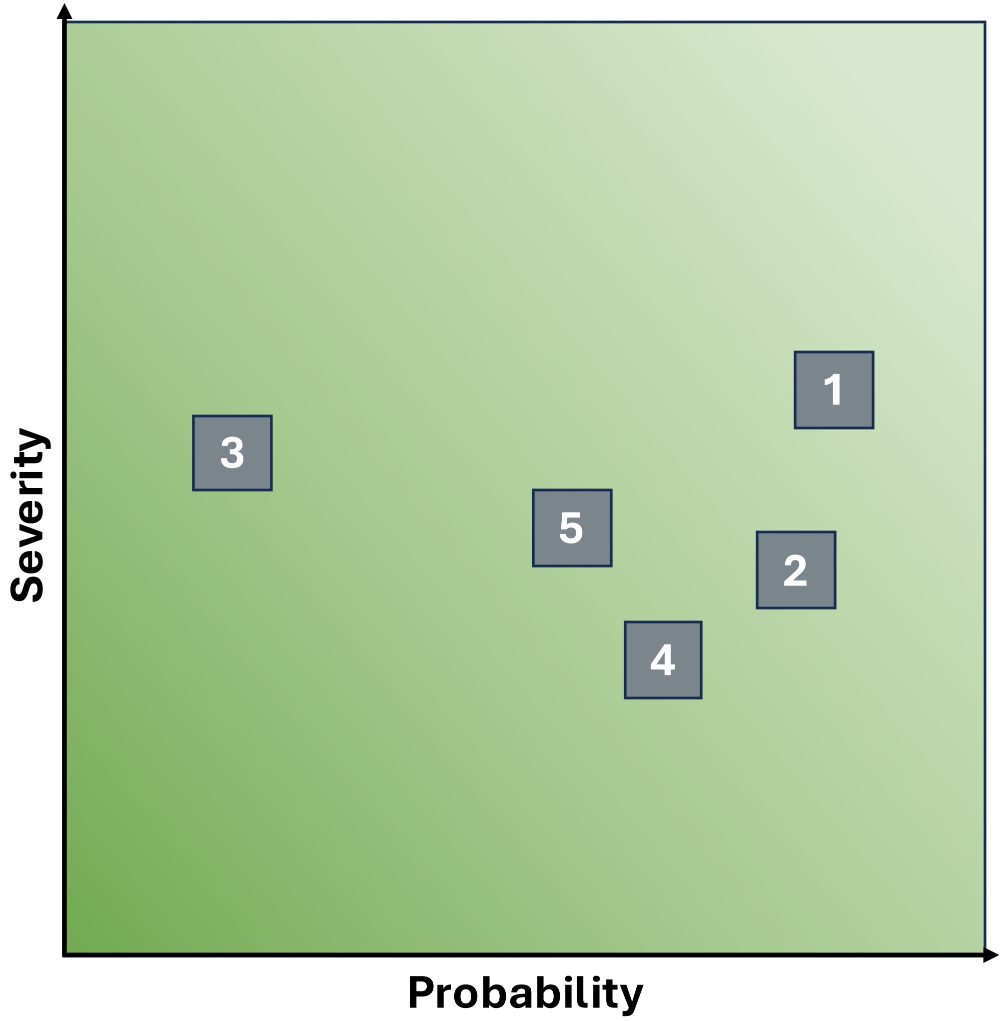
EV/DACF Model

$MM	
DACF LTM	1,544
Target Multiple	5.5x
Implied EV	**8,523**
(-) Net Debt	(646)
Implied Equity	**7,877**
Shares Outstanding (MM)	*263*
Value per Share	**$29.95**

Source(s): Company Fillings, EIA, FactSet, Government of Alberta, IEA, OPEC

INVESTMENT RISKS

Risk Matrix



Risks

1	**Increased spread between WTI and AWB** Expiration of WTI contracts increases MEGs exposure to WTI differentials.
2	**Commodity Price Volatility** Revenue is dependent on market price for commodities.
3	**Egress Apportionment** Limited egress can reduce MEGs transport capacity to Western U.S. and international markets.
4	**Delays on Future Projects** Surmont Project and eMVAPEX Technology expected to improve MEGs cash flow.
5	**Macro Uncertainty** Non-OPEC supply growth and OPEC+ policies add layers of unpredictability.

RECOMMENDATION

Recommendation

Action	BUY
Target Price	32.50
Current Price	25.68
Implied Return	~21%

Investment Drivers

Market Access	120,000 BBLS/D of Tidewater Access
Strengthened Balance Sheet	100% FCF to Shareholders Mandate
Efficient Production	Impressive Steam-To-Oil Ratio

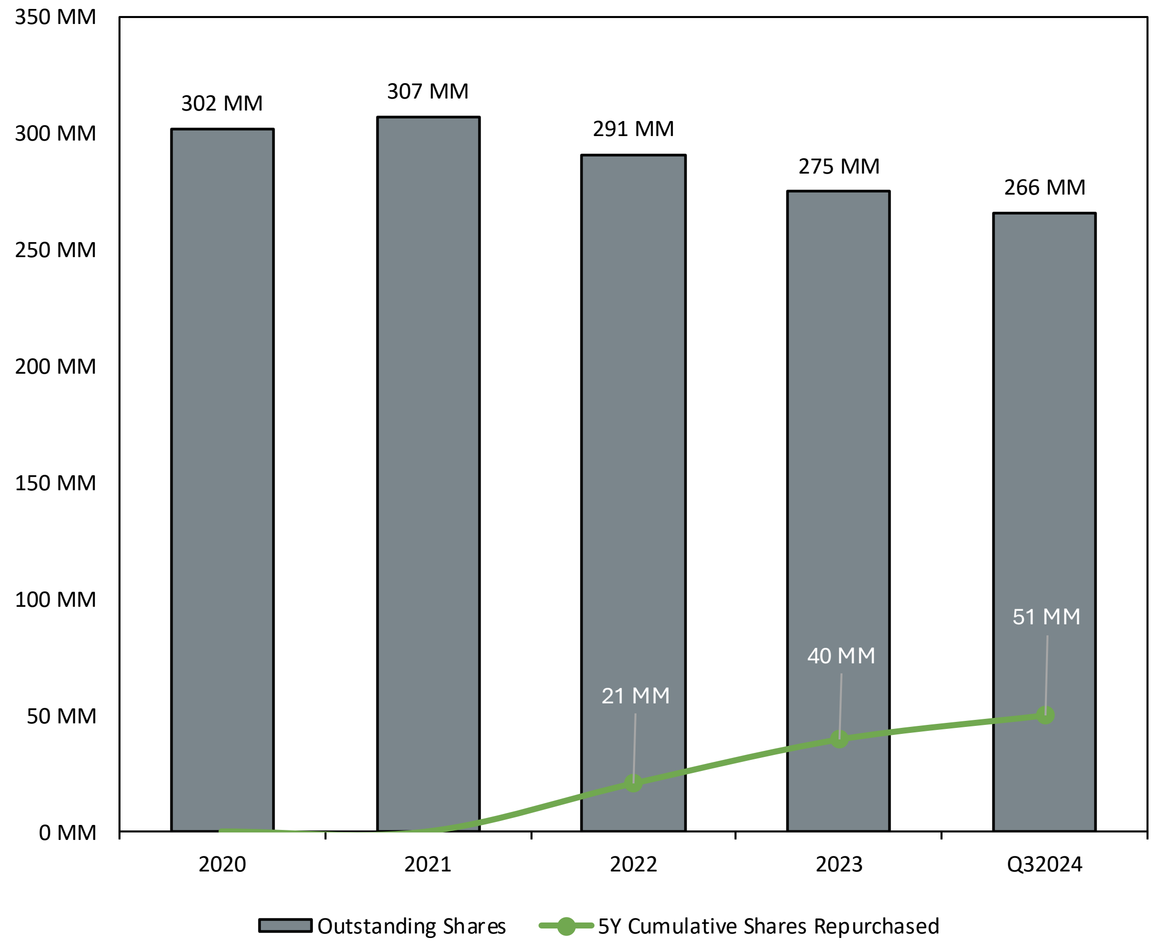
Football Field Valuation

Questions?

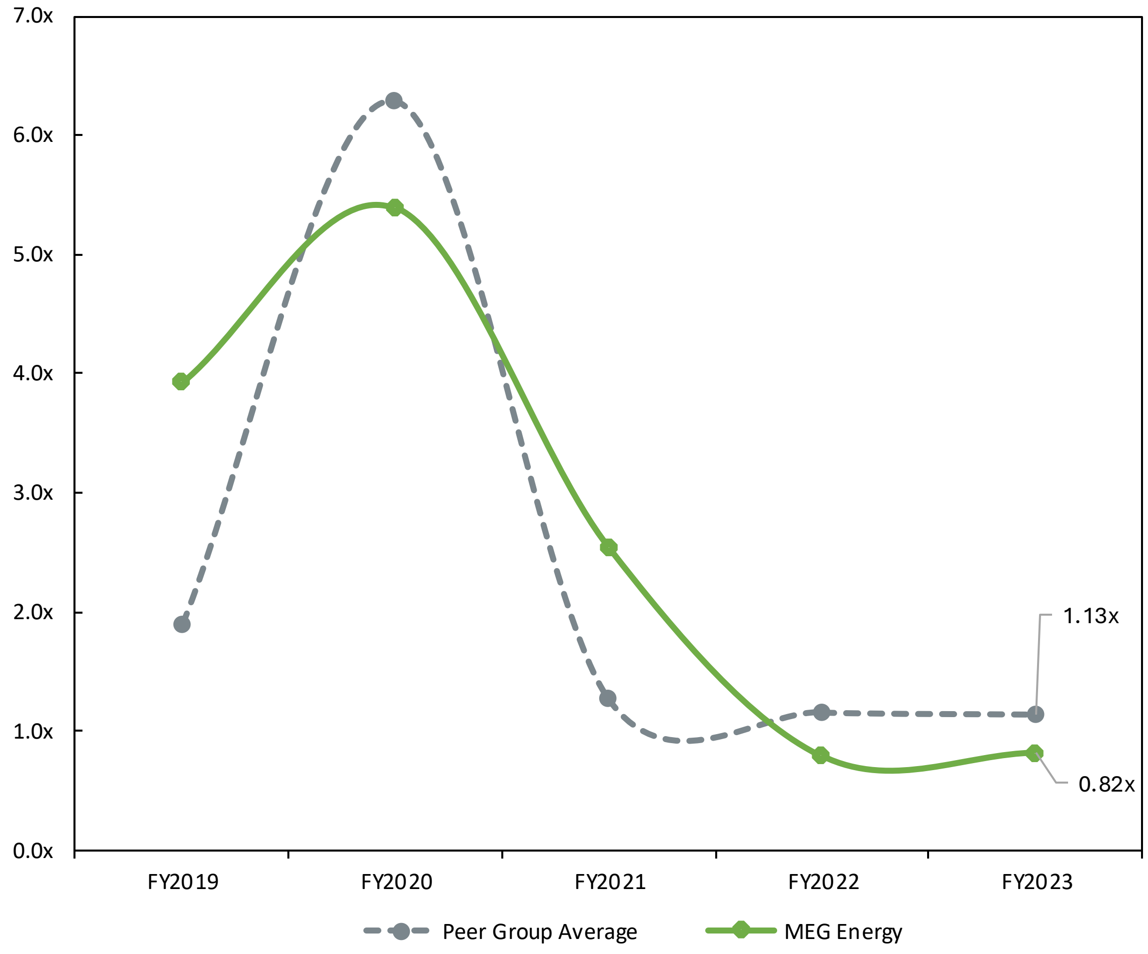
APPENDIX

BALANCE SHEET STRENGTH

Outstanding Shares

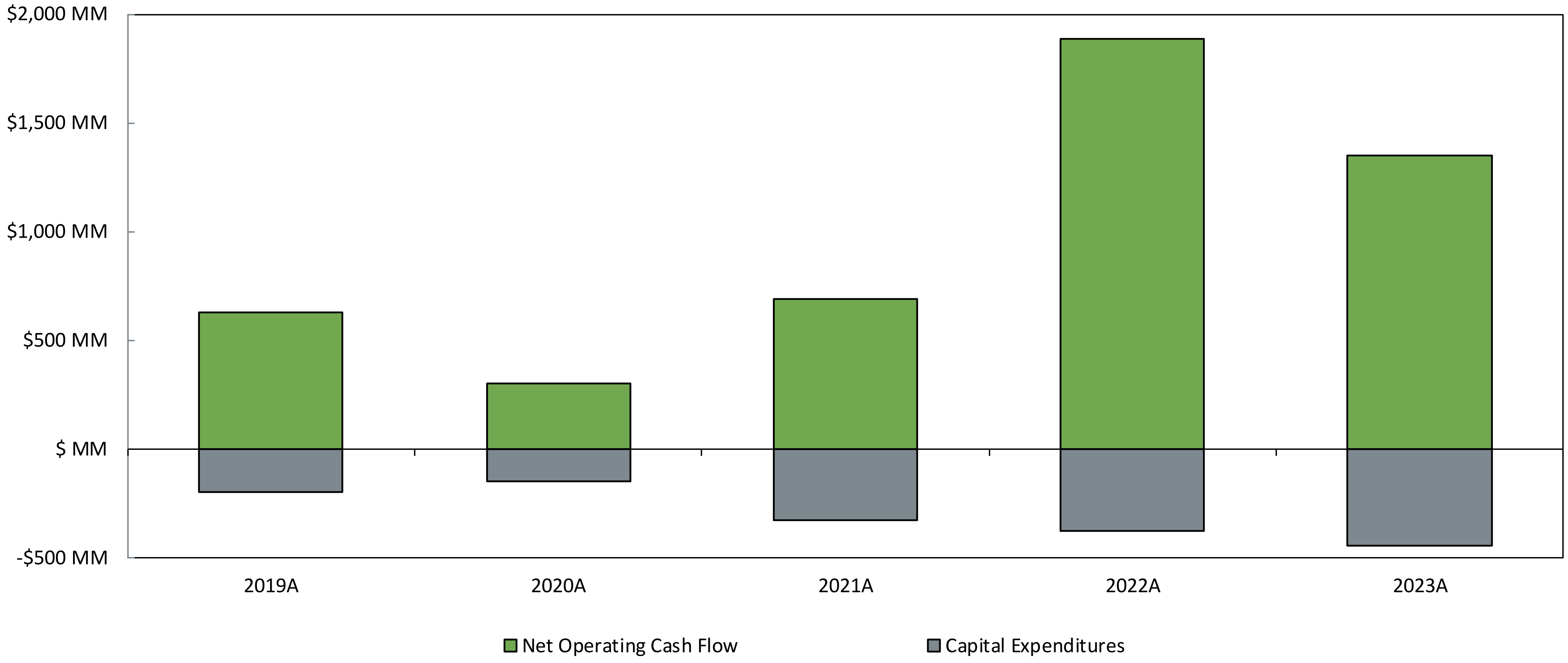


Net Debt/EBITDA vs Peers



HISTORICAL FREE CASH FLOW PROFILE

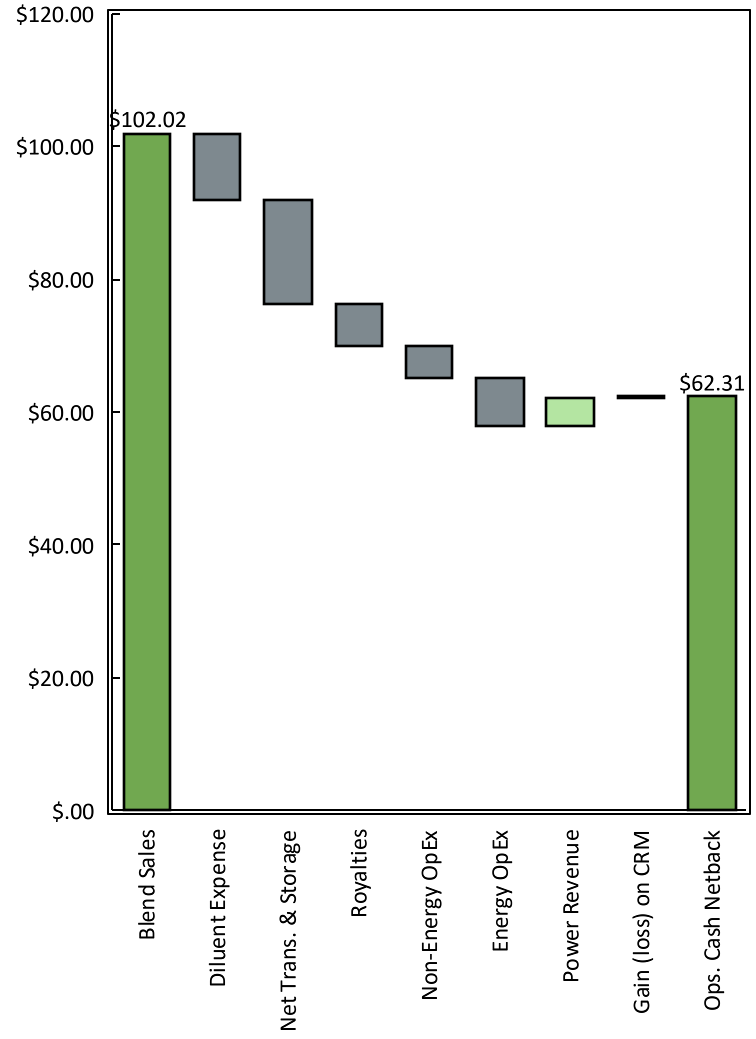
Historical FCF Profile



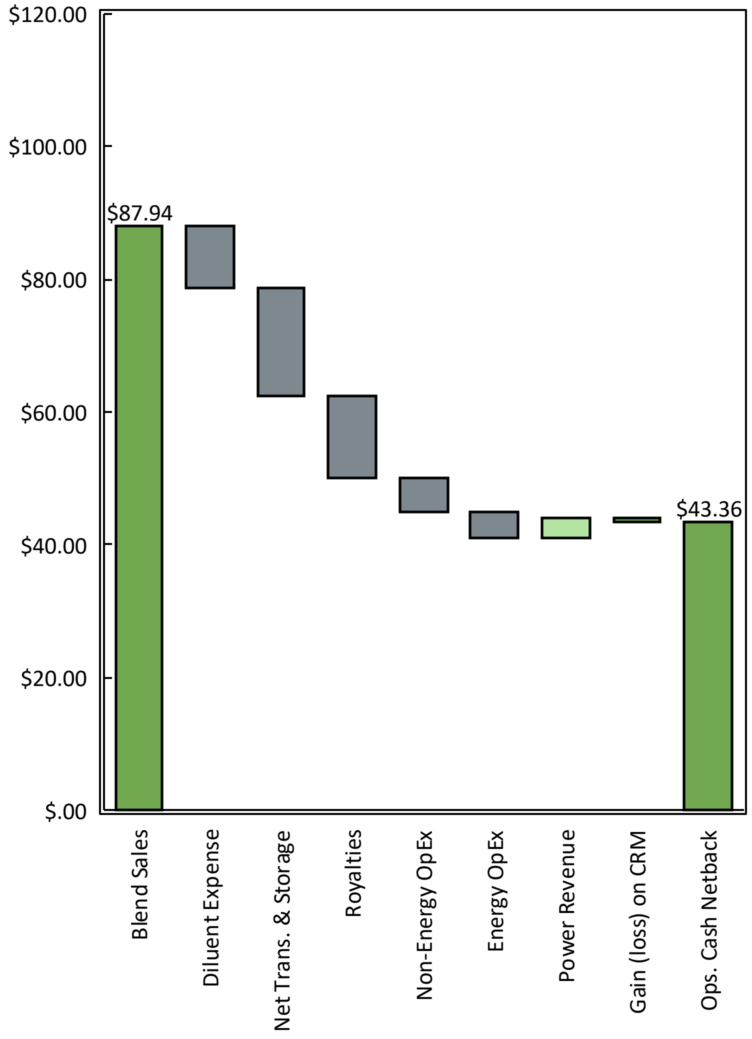
Source(s): Company Filings, FactSet

OPERATING NETBACK WATERFALL

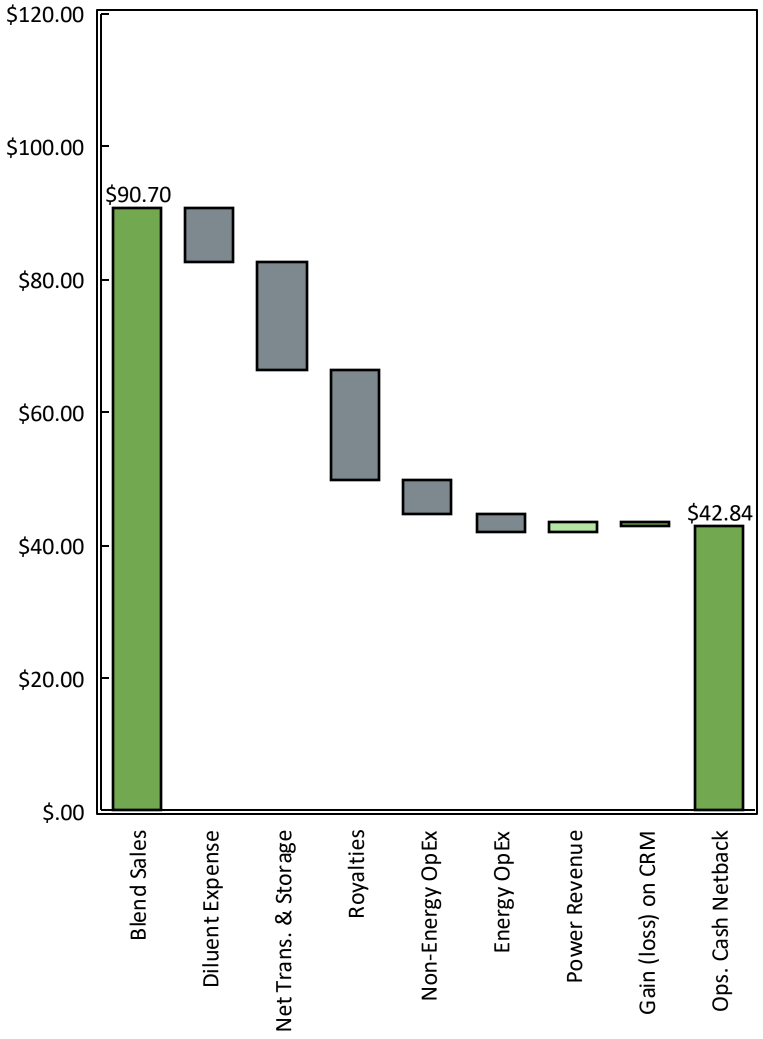
2022A Netback Waterfall



2023A Netback Waterfall



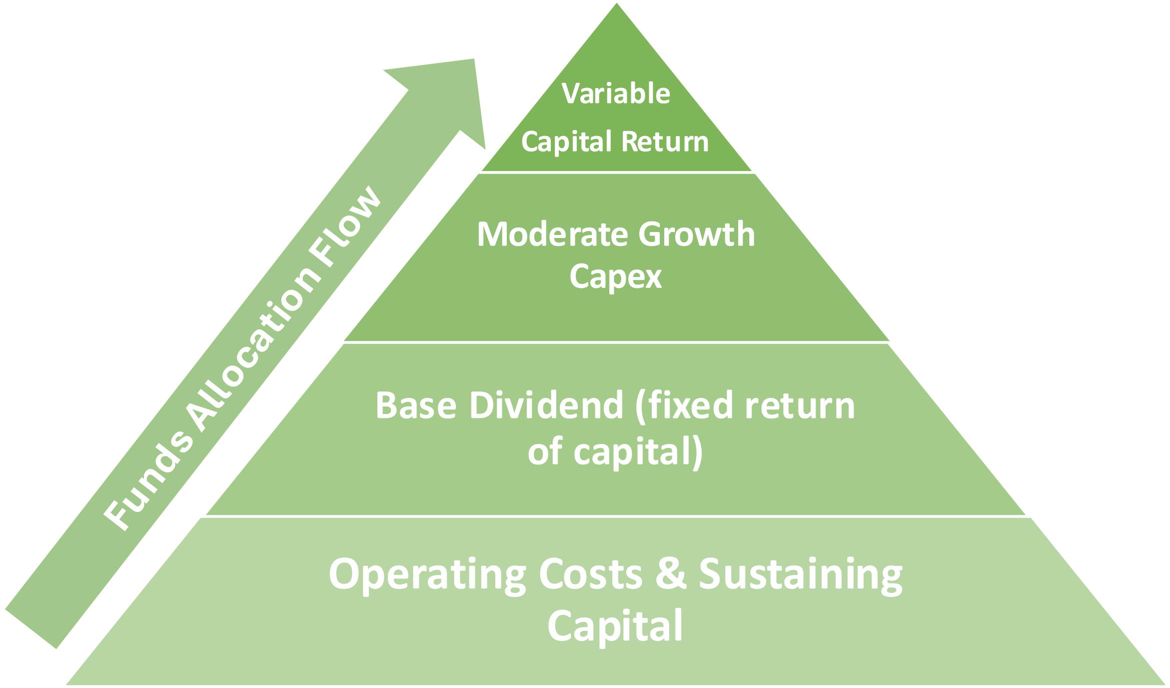
9 Mths. 2024A Netback Waterfall



Source(s): Company Filings

FUNDS ALLOCATION STRATEGY

Funds Allocation Flow



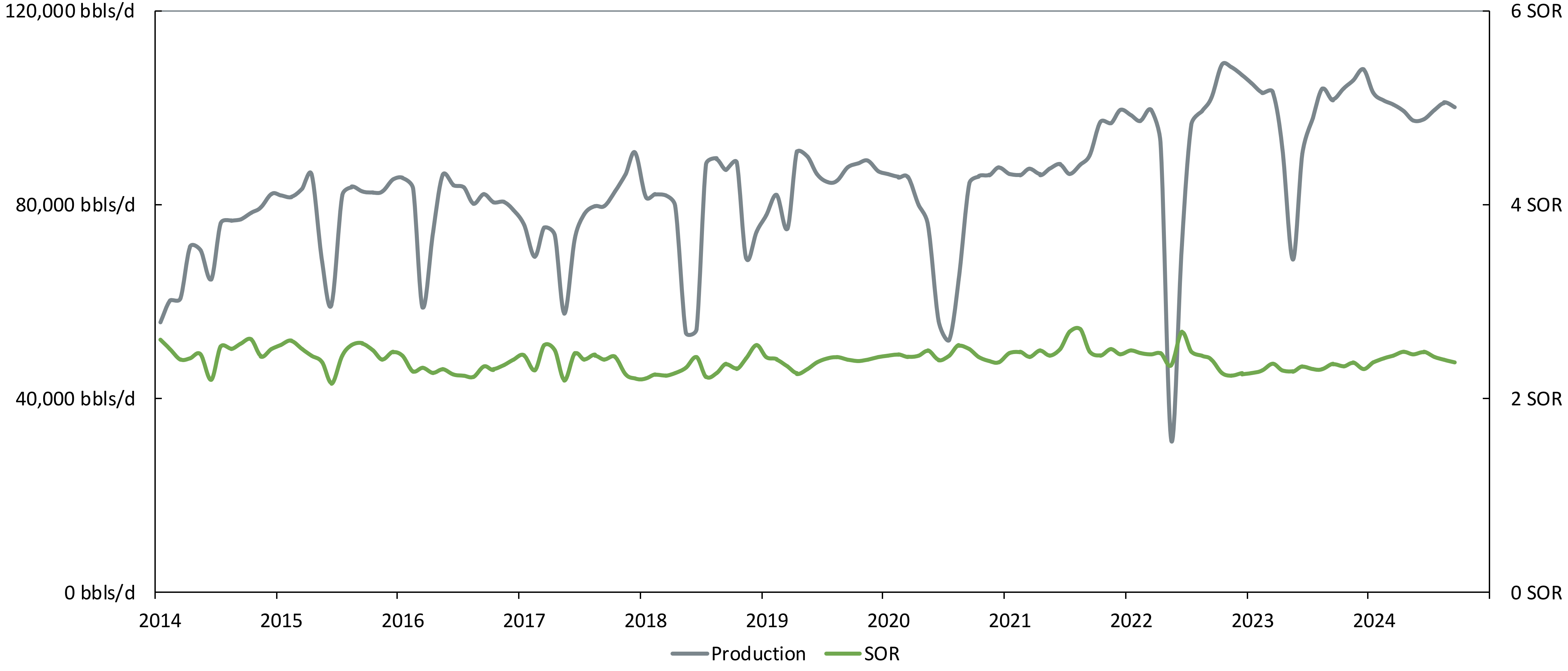
Adjusted Funds Flow Allocation Priorities (USD)

- **$600mm debt** or 1.0x EBITDA at $50/bbl WTI, with the nearest debt maturity 2029, provides strong liquidity.
- **Operating costs, non-discretionary capital**, and a **base dividend** are sustainable below $50/bbl WTI
- Discretionary cash flow allocated **to highly economic, modest** debottlenecking growth.
- **100% of FCF** return to shareholders through the base dividend and **share buybacks.**

Source(s): *Company Filings*

DAILY PRODUCTION & SOR

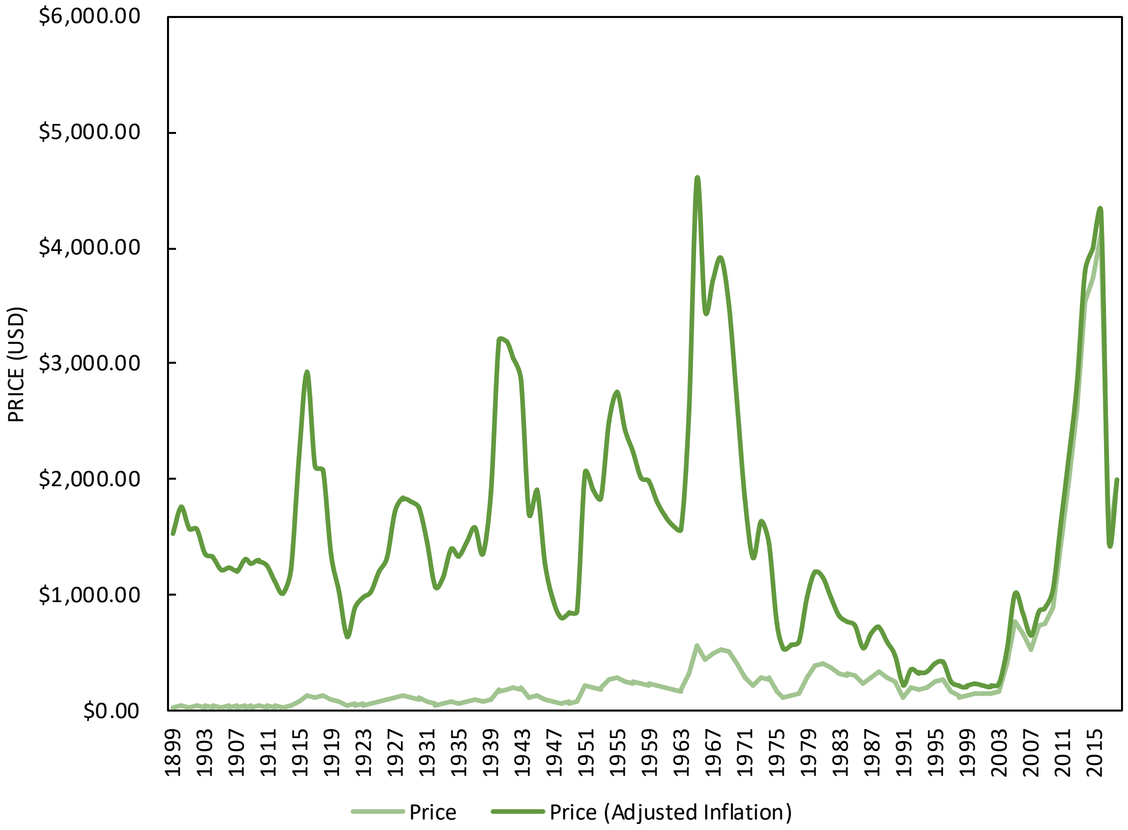
LHS Daily Production vs. RHS Steam-To-Oil Ratio



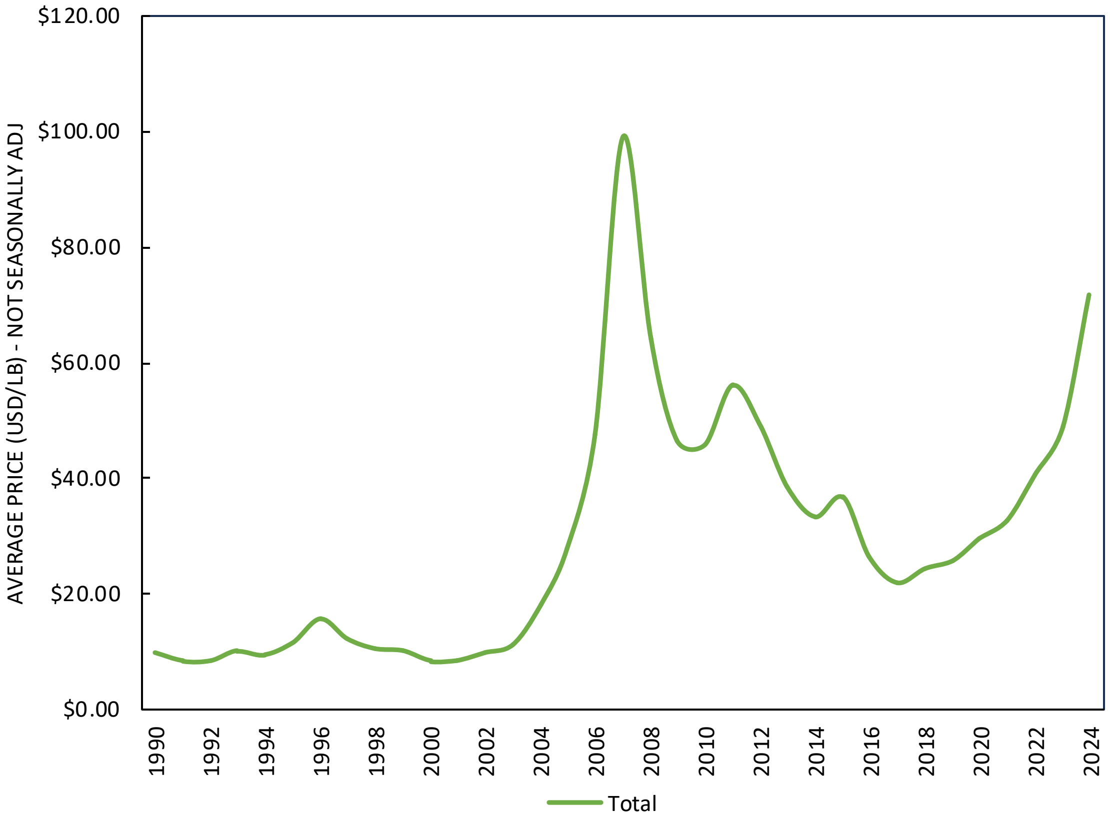
Source(s): Alberta Energy Regulator

THE CASE FOR OIL

Price of Mercury by Year



Uranium Average Price by Year

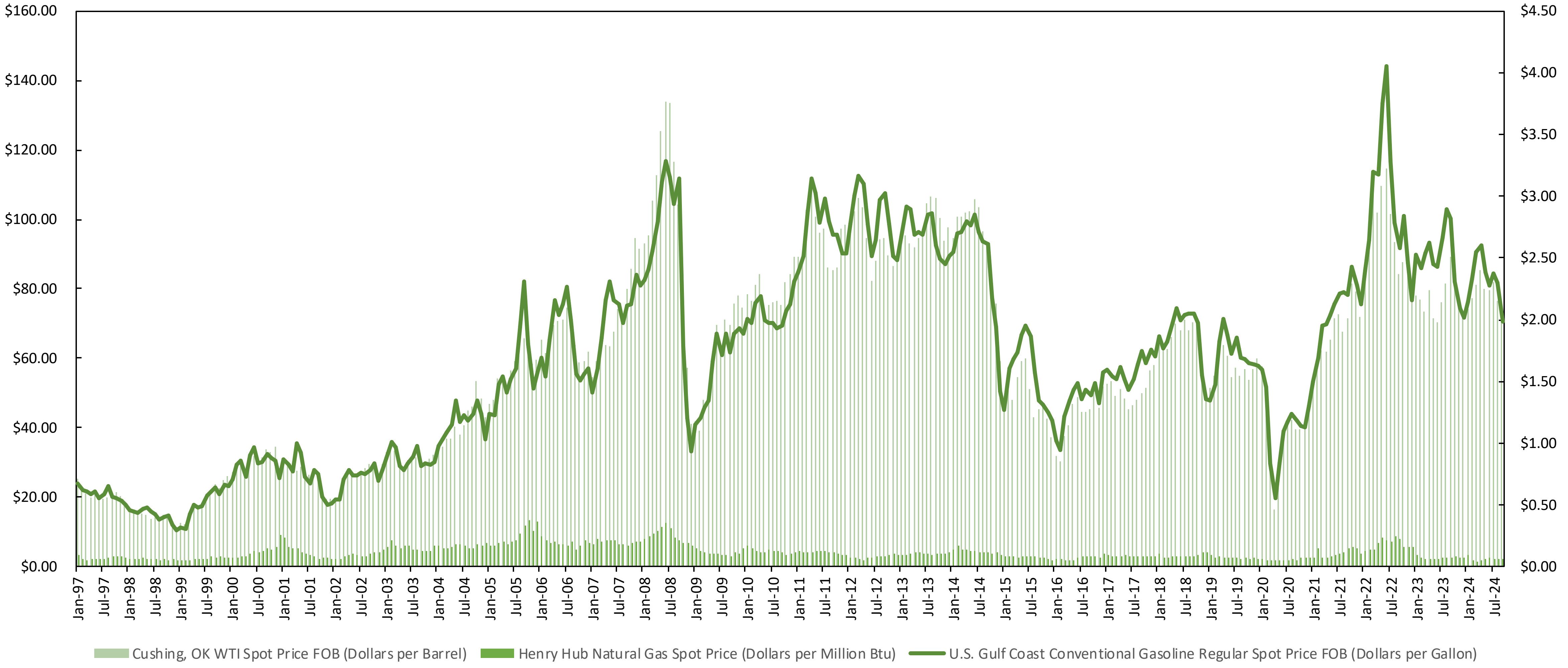


- In the past, commodities such as mercury and uranium have faced pressures like those experienced by oil but have demonstrated comparable characteristics in terms of demand and price resilience.

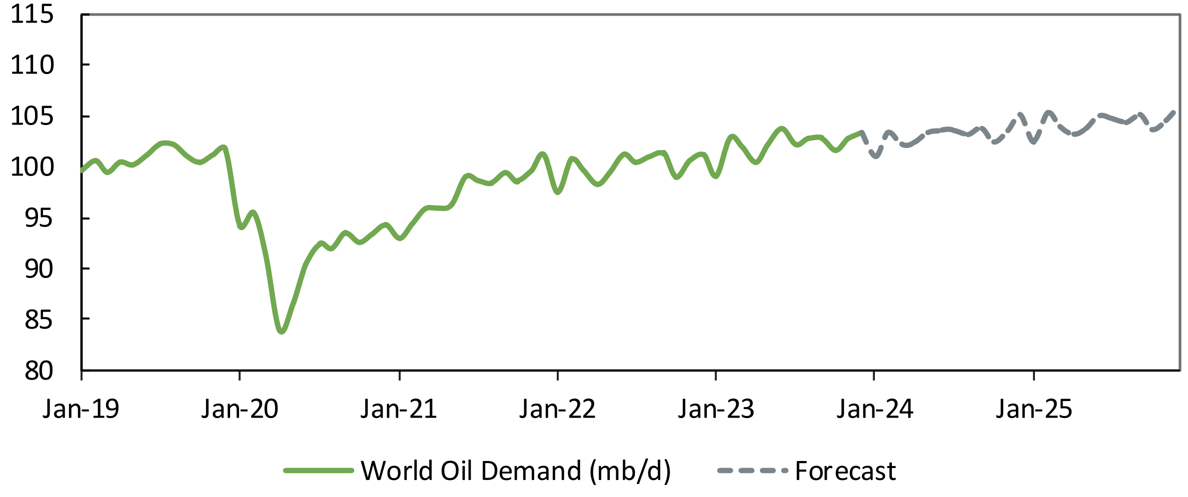
Source(s): Statista, Bloomberg

COMMODITY PRICE VOLATILITY

Commodity Price Volatility



CRUDE DEMAND



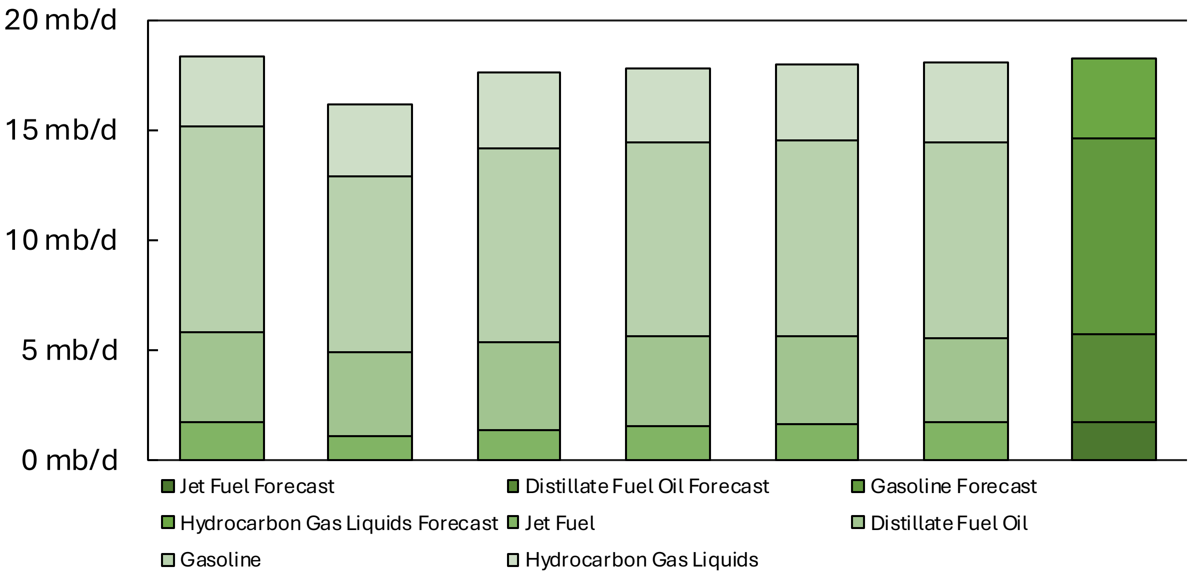
Global & North American Demand

- Both OPEC AND EIA forecast global demand to grow by over 1 mb/d in 2024, OPEC demand to reach 104 mb/d in 2024 on the back of healthy economic growth and strong fuel demand. This corresponds to a y-o-y growth between 1.0-1.8 mb/d.
- Geopolitical risks and withdrawals from global inventories stemming from OPEC+ production cuts will place upward pressure on oil prices over the next few months.
- US weather authorities have announced that the La Niña phenomenon is almost certain to turn up in 4Q24 and 1Q25, likely to cause colder temperatures in the Northern states and Western Canada. Furthermore, air travel activity is expected to remain healthy and support oil demand. In 4Q24, OPEC anticipates oil demand to grow by 170 tb/d, y-o-y, to average 20.8 mb/d on the back of continued robust air travel activity; jet kerosene is anticipated to continue to drive oil demand.

Transportation Growth

- LPG recorded the largest growth of 214 tb/d. In terms of transportation fuels, while jet/kerosene expanded by 87 tb/d, y-o-y, gasoline inched up by 14 tb/d, y-o-y. Growth in gasoline demand aligned with a report from the US Department of Transportation showing that the seasonally adjusted vehicle miles travelled for August 2024 increased by 1.1% over August 2023, also representing a 0.7% increase compared with July 2024. The increase in jet/kerosene demand was largely supported by domestic US and Canadian air travel, which is expected to remain healthy.

Petroleum and Other Liquid Fuel (mb/d)



COMPARABLE COMPANIES CHOSEN

Company	Ticker	SAGD	Athabasca	Market Cap ($MM)
Athabasca Oil Corp.	TSX:ATH	✓	✓	$2,635
Cenovus Energy	TSX:CNE	✓	✓	$40,257
Canadian Natural Resource Ltd.	TSX:CNQ	✓	✓	$98,530
Greenfire Resource	TSX:GFR	✓	✓	$484
Strathcona Resources Ltd.	TSX:SCR	✓	✗	$6,146
Suncor Energy Inc.	TSX:SU	✓	✓	$69,644

Source(s): Capital IQ

ADJUSTED FUNDS FLOW SENSITIVITY

Adjusted Funds Flow Sensitivity

Variable	Range	2024 Adjusted Funds Flow Sensitivity (C$mm)
WCS Differential (US$/bbl)	+/- $1.00/bbl	+/- C$47 mm
WTI (US$/bbl)	+/- $1.00/bbl	+/- C$31 mm
Bitumen Production (bbls/d)	+/- 1,000 bbls/d	+/- C$16 mm
Condensate (US$/bbl)	+/- $1.00/bbl	+/- C$14 mm
Exchange Rate (C$/US$)	+/- $0.01	+/- C$10 mm
Non-energy Opex (C$/bbl)	+/- $0.25/bbl	+/- C$6 mm
AECO Gas (C$/GJ)[3]	+/- $0.50/GJ	+/- C$6 mm

Source(s): Company Filings

RECENT DEVELOPMENTS

3Q24 Earnings Breakdown (In CAD $)

Production: 103,300 bbl/d; 2.36 SOR
Operating Costs: $5.82/barrel (net of power revenue)
Financials:
FFO: $362M ($1.34/share), down YoY.
Free Cash Flow: $221M (after $141M capex).
Revenue: $1.27B (missed by $95.93M).
EPS (GAAP): $0.62 (missed by $0.05).
Capital Allocation:
Repurchased 4.1M shares ($108M) in Q3.
Inaugural dividend of $0.10/share, another declared for January 2025.
Capital Investments: $141M focused on field development.

3Q24 Earnings Takeaway

Bullish Signals: TMX access, cost efficiency, clean balance sheet, moderate growth strategy.
Bearish Signals: Near-term challenges, volatile oil prices.

3Q24 Earnings Analysis

Strengths:
- Operational efficiency: Top-tier SAGD operations and low costs.
- Debt reduction: Net debt down to US$478M.
- Shareholder returns: 100% FCF returned via buybacks & dividends.
- Pipeline Advantage: TMX access positions MEG for improved pricing stability.

Challenges:
- Revenue miss due to commodity price volatility and external issues (wildfires, cold weather).
- Earnings miss from higher transportation costs due to TMX tolls.

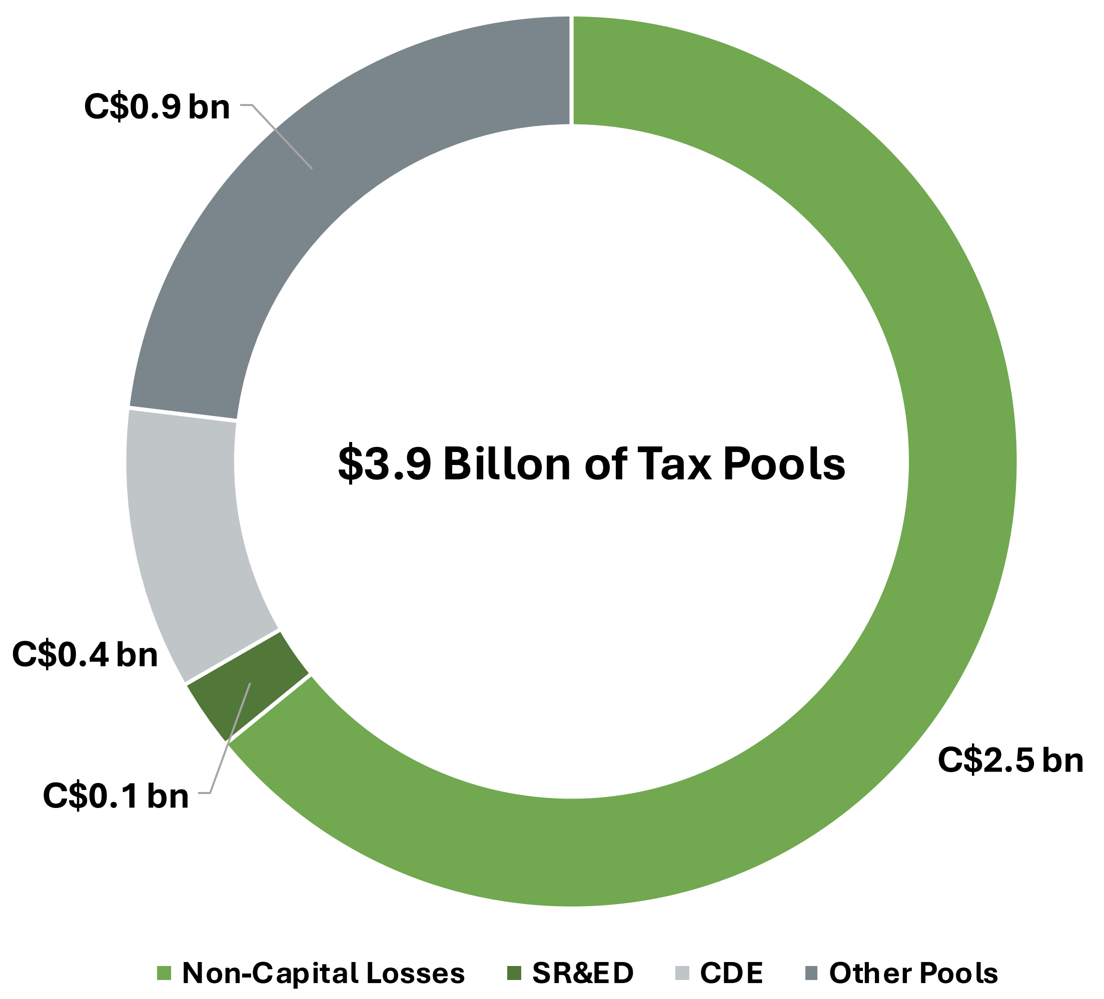
Opportunities:
- TMX pipeline leverage for global market access.
- Carbon capture projects under the Pathways Alliance.

Risks:
- Commodity price volatility and transportation cost pressures.
- Growth constraints and macro uncertainty.

Source(s): Company Filings

TAX POOL & ROYALTIES

Composition of Tax Pools



Royalty Calculation

	Royalty Rate	Royalty Expense (C$mm)	Effective Royalty Rate
Gross Revenue	7%	$157	7%
Net Revenue	37%	$486	22%

	Alberta Average
Gross Rate	1-9%
Net Revenue	25-40%

Source(s): Company Filings, Company Presentations, Government of Alberta